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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

OCTOBER 2007

Volume 1, Number 10

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

General Fund and Highway Fund revenue were under projections through the first quarter of FY 2008. First quarter revenues for both funds were below 1st quarter collections for FY 2007.

The update of the economic forecast by the Consensus Economic Forecasting Commission reflected modest changes and actually increased projections of Maine Personal Income in calendar year 2007. However, the Revenue Forecasting Committee will need to adjust assumptions for corporate profits and fuel prices, which are expected to produce a decline in projected revenues.

The Appropriations Committee continued its efforts on “The Initiative” to Streamline State Government. The committee took a number of preliminary votes and tentatively accepted many of the proposals put forth by the Administration. Based on these preliminary votes, the committee is just short of the \$10.1 million target required by the implementing legislation.

General Fund Revenue Update

Total General Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
September	\$286.6	\$281.5	(\$5.1)	-1.8%	\$287.2	-2.0%
FYTD	\$601.2	\$596.1	(\$5.1)	-0.8%	\$599.1	-0.5%

General Fund revenue in September was below budget by \$5.1 million erasing a very small positive variance for the fiscal year after the first 2 months of the year. First quarter revenue in FY 2008 was actually 0.5% below the first quarter of FY 2007. This does not mean that the negative growth will continue through the remainder of this fiscal year. FY 2008 General Fund revenue is budgeted to increase by \$86.1 million (2.9%) over FY 2007 actual collections. A shortfall of the magnitude indicated by the first quarter is not expected.

Major negative variances for this fiscal year are in the Corporate Income Tax and the Cigarette and Tobacco Tax revenues, which were under budget by \$9.7 million and \$3.2 million, respectively, for the first quarter of FY 2008. Sales and Use Taxes have also been running behind budget with the exception of August taxable sales, which were slightly ahead of projections. Concerns for the future taxable sales center on the effect of high oil prices as we head into the heating season.



General Fund Revenue Update (continued)

FY 2007 Corporate Income Tax collections declined over their peak amount of \$188 million in FY 2006 after several years of growth in excess of 20%. FY 2008's growth rate for the Corporate Income Tax is currently budgeted to be 9.9%. The mix of Maine's corporate income taxpayers has changed in recent years with large national retailers and energy companies representing the bulk of our corporate income tax liability. While energy companies have had record profits recently, profit growth is not expected to continue. Retailers with the effect of the sub-prime mortgage crisis nationally are not expected to increase profitability.

Cigarette and Tobacco Taxes have been declining more than anticipated after the increase in the Cigarette Tax in September, 2005. The Revenue Forecasting Committee has made several downward revisions to the estimates of this category. The Cigarette Tax has been running under budget by \$0.8 million to \$1.0 million each month since the beginning of calendar year 2007. The amount of sales lost to New Hampshire or the internet or shifted to other tobacco products continues to be greater than anticipated.

Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2008 (S's in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
September	31.8	30.2	(1.5)	-4.8%	30.4	-0.5%
FYTD	68.1	63.7	(4.4)	-6.5%	65.3	-2.4%

Highway Fund revenue continued its string of negative variances with Fuel Taxes leading the way. Highway Fund revenue was under budget by \$1.5 million in September and was \$4.4 million (6.5%) under budget for the first quarter of FY 2008. First quarter revenue in FY 2008 was 2.4% below FY 2007 first quarter revenue.

Fuel Taxes, primarily driven downward by discretionary gasoline tax consumption, have been below budget and are 2.3% below FY 2007 1st quarter revenue despite an increase in fuel tax rates from indexing.

Although gasoline prices have not yet reacted to the record high oil prices in recent months, that remains a concern for future gasoline prices and future consumption.

The Motor Vehicle Registration and Fees revenue category was under budget by \$0.9 million in September erasing a modest positive variance for the first 2 months of FY 2008. This category was under budget by \$0.7 million or 3.3% for the first quarter. Collections were below the same quarter of FY 2007 by 1.3%. While some of this negative variance will be reversed over the course of FY 2008, this revenue source declined between FY 2006 and FY 2007 and some component of the negative variance may be on-going.



Revenue Forecasting Update

The Consensus Economic Forecasting Commission (CEFC) met on October 16th to kick off the fall revenue forecast by updating its February economic forecast as required by statute. Presented below is a table summarizing the forecast's major indicators reflecting the changes from the previous forecast in February 2007.

Recommendations for November 2007 Economic Forecast						
<u>Calendar Years</u>	Annual Percentage Change					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
• Wage & Salary Employment						
> Consensus 02/2007	0.5	0.7	0.8	0.8	0.7	0.6
> Consensus 11/2007	0.5	0.5	0.3	0.6	0.7	0.7
Net Change in Forecast		-0.2	-0.5	-0.1	0.0	0.1
• Personal Income						
> Consensus 02/2007	5.2	4.3	4.5	4.5	4.3	4.2
> Consensus 11/2007	3.9	4.9	4.4	4.5	4.5	4.6
Net Change in Forecast		0.6	-0.1	0.0	0.2	0.4
• Consumer Price Index						
> Consensus 02/2007	3.5	2.5	2.2	2.2	2.2	2.2
> Consensus 11/2007	3.2	2.8	2.5	2.5	2.5	2.5
Net Change in Forecast		0.3	0.3	0.3	0.3	0.3

The table shows that the CEFC downgraded projections of employment through calendar year 2009 and increased estimates of inflation throughout the forecast period. In contrast, the CEFC increased projected growth of Personal Income. The changes to these economic variables will be used by Maine Revenue Services' tax models to help forecast tax revenue. These CEFC revisions will have a mixed effect on the revenue forecast with the Personal Income increase likely outweighing the effects of the other changes, particularly for the forecasts of Sales and Use Tax and Individual Income Tax revenues.

However, other additional variables, still to be forecast by the Revenue Forecasting Committee (RFC) may have a greater effect on the revenue forecast, most notably the effect of the record oil prices.

The RFC is scheduled to meet on Monday, November 19th at 9:00AM in Room 228 of the State House to factor in the CEFC's economic changes and other factors to conclude the December revenue forecast.

A copy of the full CEFC report is available on the Revenue Forecasting Committee web page at <http://www.maine.gov/legis/ofpr/rfcmain.htm>.

Cash Balances Update

Average balance for the total cash pool in September was \$613.7 million. This balance remained close to the average balance for the month of August of the last 6 years of \$618.2 million, despite the fact that the State has relied on internal borrowing from within the cash pool rather than going out to external, short-term borrowing, such as Tax Anticipation Notes. There is no indication that this reliance on internal borrowing will change in the short term.

As noted last month, some concerns remain about the current projections of cash balances for the General Fund and the Highway Fund. As reported above in the revenue updates, the negative revenue variances appear to be on-going and will affect the fall revenue forecast. However, the expenditures approved by the enacted budget have not yet been adjusted to reflect these revenue shortfalls and will continue to degrade the cash position in these funds until the Legislature acts to offset the revenue shortfalls.

Summary of Treasurer's Cash Pool September 2007 Average Daily Balances

Millions of \$'s

General Fund (GF) Total	\$29.3
General Fund (GF) Detail:	
Budget Stabilization Fund	\$116.1
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$52.0
Other General Fund Cash	(\$179.3)
Other Spec. Rev. - Interest to GF	\$104.0
Other State Funds - Interest to GF	\$9.4
Highway Fund	\$24.3
Other Spec. Rev. - Retaining Interest	\$81.4
Other State Funds	\$253.9
Independent Agency Funds	\$111.3
Total Cash Pool	\$613.7



"The Initiative" to Streamline State Government

The Appropriations Committee's work on "The Initiative" to Streamline State Government, an effort intended to achieve \$10.1 million in General Fund administrative cost savings, continues. At the Appropriations Committee's September meetings, the committee pared down the proposals received from the Administration and the public and divided them into three tiers. During October's meetings, the committee held provisional votes on fifty-four proposals of the 115 Tier 1 and 2 proposals. Out of the provisional votes taken, the committee voted to retain thirty-one proposals. These proposals amount to just under \$8.2 million or 81% of the targeted savings.

There are more than fifty-five proposals left to be considered for this round of provisional voting. The committee is still awaiting responses from the applicable policy committees to some of the public input proposals. The timing of the requests for input from the policy committees did not coincide well with the schedules of interim committee meetings set out by the committees. Many of the committees did not respond or responded that they did not have sufficient time to adequately respond. A listing of the proposals and the results of the provisional voting to date may be found on the web page at <http://www.maine.gov/legis/ofpr/afaInitiative.html>. Work on "The Initiative" will continue at the committee's November 15th and 16th meetings. Two additional interim meetings are planned for the month of December, December 12th and 13th.

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through 123rd Legislature, 1st Regular Session

SEPTEMBER 2007 REVENUE VARIANCE REPORT

Revenue Line	September '07 Budget	September '07 Actual	September '07 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	98,155,832	98,465,444.99	309,612.99	195,677,694	192,810,538.35	(2,867,155.65)	-1.5%	1,006,131,180
Service Provider Tax	4,196,474	4,419,397.13	222,923.13	8,510,025	8,520,937.54	10,912.54	0.1%	51,181,910
Individual Income Tax	116,695,027	118,358,297.54	1,663,270.54	257,959,957	265,254,255.86	7,294,298.86	2.8%	1,382,788,225
Corporate Income Tax	40,750,000	37,994,765.93	(2,755,234.07)	53,750,000	44,022,578.44	(9,727,421.56)	-18.1%	202,052,405
Cigarette and Tobacco Tax	14,129,405	11,867,920.90	(2,261,484.10)	45,599,001	42,416,148.44	(3,182,852.56)	-7.0%	163,774,241
Public Utilities Tax	0	0.00	0.00	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	201,119	63,022.35	(138,096.65)	681,964	1,902,918.11	1,220,954.11	179.0%	76,751,673
Estate Tax	3,500,000	2,323,653.43	(1,176,346.57)	3,500,000	1,540,460.50	(1,959,539.50)	-56.0%	45,258,169
Property Tax - Unorganized Territory	0	0.00	0.00	0	0.00	0.00	N/A	12,263,986
Income from Investments	400,000	419,858.24	19,858.24	900,000	954,667.51	54,667.51	6.1%	1,424,000
Transfer to Municipal Revenue Sharing	(13,249,663)	(13,221,133.17)	28,529.83	(26,310,782)	(26,041,023.81)	269,758.19	1.0%	(134,749,842)
Transfer from Lottery Commission	4,791,762	4,066,759.06	(725,002.94)	12,458,562	13,546,268.35	1,087,706.35	8.7%	49,834,250
Other Revenue	16,997,290	16,693,325.01	(303,964.99)	48,468,424	50,821,817.41	2,353,393.41	4.9%	231,506,341
Totals	286,567,246	281,451,311.41	(5,115,934.59)	601,194,845	596,097,546.96	(5,097,298.04)	-0.8%	3,105,693,525
Highway Fund								
Fuel Taxes	23,212,603	23,141,660.70	(70,942.30)	43,157,522	40,134,721.38	(3,022,800.62)	-7.0%	234,550,398
Motor Vehicle Registration and Fees	6,909,159	5,983,862.76	(925,296.24)	20,736,666	20,049,091.86	(687,574.14)	-3.3%	87,290,064
Inspection Fees	338,616	272,878.29	(65,737.71)	1,217,811	1,178,550.04	(39,260.96)	-3.2%	4,433,458
Fines	168,042	433,829.28	265,787.28	513,698	433,829.28	(79,868.72)	-15.5%	2,018,239
Income from Investments	85,000	146,770.60	61,770.60	215,000	322,062.27	107,062.27	49.8%	795,000
Other Revenue	1,044,772	268,646.15	(776,125.85)	2,261,163	1,568,436.91	(692,726.09)	-30.6%	10,195,906
Totals	31,758,192	30,247,647.78	(1,510,544.22)	68,101,860	63,686,691.74	(4,415,168.26)	-6.5%	339,283,065

Comparison of Actual Year-to-Date Revenue Through September of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$178,658,572.17	6.5%	\$177,825,339.46	3.1%	\$185,385,402.22	4.3%	\$190,057,787.25	2.5%	\$192,810,538.35	1.4%
Service Provider Tax	\$0.00	N/A	\$6,396,850.10	N/A	\$6,419,578.03	0.4%	\$8,182,715.67	27.5%	\$8,520,937.54	4.1%
Individual Income Tax	\$221,420,706.18	4.2%	\$254,880,033.41	15.1%	\$271,085,229.30	6.4%	\$286,778,252.74	5.8%	\$301,429,061.91	5.1%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$13,212,065.74)	N/A	(\$16,191,303.55)	-22.5%	(\$20,895,690.68)	-29.1%	(\$21,055,449.41)	-0.8%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$6,546,430.41)	N/A	(\$16,428,717.73)	-151.0%	(\$15,119,356.64)	8.0%
Corporate Income Tax	\$20,779,903.82	1.0%	\$32,611,042.51	56.9%	\$40,938,903.42	25.5%	\$49,772,986.29	21.6%	\$44,022,578.44	-11.6%
Cigarette and Tobacco Tax	\$27,327,820.94	6.7%	\$26,791,393.51	-2.0%	\$31,854,556.76	18.9%	\$45,034,243.06	41.4%	\$42,416,148.44	-5.8%
Public Utilities Tax	(\$293,687.83)	76.8%	(\$150,000.00)	48.9%	\$0.00	100.0%	\$0.00	N/A	\$347,980.26	N/A
Insurance Companies Tax	\$2,040,409.88	-21.5%	\$1,797,449.71	-11.9%	\$1,083,332.44	-39.7%	\$550,539.47	-49.2%	\$1,902,918.11	245.6%
Estate Tax	\$1,004,445.53	-59.4%	\$1,876,875.17	86.9%	\$14,311,042.97	662.5%	\$13,747,384.69	-3.9%	\$1,540,460.50	-88.8%
Property Tax - Unorganized Territory	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A
Income from Investments	\$530,354.03	47.2%	\$787,382.05	48.5%	\$1,299,556.81	65.0%	\$1,241,485.64	-4.5%	\$954,667.51	-23.1%
Revenue Sharing Transfers	(\$21,463,818.31)	-5.0%	(\$23,383,561.18)	-8.9%	(\$24,535,660.32)	-4.9%	(\$25,370,834.00)	-3.4%	(\$26,041,023.81)	-2.6%
Liquor Transfers	\$7,934,132.89	10.6%	\$50,018,110.46	530.4%	\$750.00	-100.0%	\$8,821.36	1076.2%	\$0.00	-100.0%
Lottery Transfers	\$10,385,895.69	10.7%	\$12,927,830.94	24.5%	\$11,663,852.83	-9.8%	\$13,649,030.60	17.0%	\$13,546,268.35	-0.8%
Other Revenue	\$48,181,626.55	47.5%	\$47,616,244.12	-1.2%	\$42,506,730.98	-10.7%	\$52,794,255.46	24.2%	\$50,821,817.41	-3.7%
TOTAL GENERAL FUND REVENUE	\$496,506,361.54	8.1%	\$576,782,924.52	16.2%	\$559,275,541.48	-3.0%	\$599,122,259.82	7.1%	\$596,097,546.96	-0.5%
HIGHWAY FUND										
Fuel Taxes	\$38,792,488.87	16.0%	\$41,997,483.18	8.3%	\$40,371,777.15	-3.9%	\$41,086,309.76	1.8%	\$40,134,721.38	-2.3%
Motor Vehicle Registration and Fees	\$19,653,735.85	-0.8%	\$20,116,342.96	2.4%	\$21,400,880.61	6.4%	\$20,304,836.99	-5.1%	\$20,049,091.86	-1.3%
Inspection Fees	\$1,295,646.35	17.8%	\$1,034,203.41	-20.2%	\$1,156,561.34	11.8%	\$1,156,827.83	0.0%	\$1,178,550.04	1.9%
Fines	\$496,597.49	-24.6%	\$305,183.93	-38.5%	\$504,770.14	65.4%	\$453,473.75	-10.2%	\$433,829.28	-4.3%
Income from Investments	\$111,220.23	-67.3%	\$143,040.99	28.6%	\$416,066.73	190.9%	\$211,205.98	-49.2%	\$322,062.27	52.5%
Other Revenue	\$1,695,872.58	-5.9%	\$1,620,996.02	-4.4%	\$2,153,381.18	32.8%	\$2,060,753.89	-4.3%	\$1,568,436.91	-23.9%
TOTAL HIGHWAY FUND REVENUE	\$62,045,561.37	8.6%	\$65,217,250.49	5.1%	\$66,003,437.15	1.2%	\$65,273,408.20	-1.1%	\$63,686,691.74	-2.4%

Adjusted for Service Provider Tax Split